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May 28, 2009

Ms. Mary Nichols, Chairman  
Mr. James Goldstene, Executive Officer  
CALIFORNIA AIR RESOURCES BOARD  
1001 "I" Street  
Sacramento, CA 95814-2828

**Re: Pacific Gas and Electric Company's Comments on the California Air Resource Board's Staff's April 28, 2009 Workshop on "Introduction to Cap-Setting in a Cap-and-Trade Program"**

Dear Chairman Nichols and Executive Officer Goldstene:

Pacific Gas and Electric Company ("PG&E") welcomes the opportunity to provide these comments on the California Air Resources Board Staff's ("ARB") presentation at the April 28, 2009 Workshop on cap-setting in a California cap-and-trade market for emissions of greenhouse gases ("GHG").

PG&E is committed to working with the ARB, other State agencies and concerned stakeholders to make AB 32 a success and a model for emerging regional and national GHG reduction programs. We commend ARB Staff for their efforts on cap-setting and data review for a California cap-and-trade market.

Among the many facets of a cap-and-trade market, the initial level of the cap in 2012 and its trajectory over 2013-2019 are critical. PG&E believes that they should be determined using the statutory criteria mandated by AB 32 for setting emission reduction targets, including technological feasibility; economic efficiency; cost and rate impacts on consumers and businesses and governments; and impact on low income communities and ratepayers (Health and Safety Code § 38562).

The analysis of "compliance pathway scenarios" proposed by ARB staff at the April 28<sup>th</sup> Workshop appears to be an important step in the right direction. PG&E supports a rigorous and fully peer-and public-reviewed analysis of the impacts of various trajectories, including a detailed assessment of abatement costs, availability, and lead-time for each program or project type. On April 28<sup>th</sup>, Staff noted that its analysis "will help ensure that the trajectory of the cap is reasonable and can be achieved in each [compliance] period". Staff also referred to cost curves for emission-abatement measures, including lead times.

PG&E believes that the compliance pathway analysis should highlight projected costs to consumers. In this respect, the compliance pathway analysis may differ from ARB's macroeconomic modeling, which includes benefits to California - though not necessarily to each consumer - from innovation and technological leadership.



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The Blueprint of the U. S. Climate Action Partnership, which PG&E supports, calls for emission targets in 2012 that are 97%-102% of 2005 emissions, followed by a decline to 80%-86% of 2005 levels by 2020. However, the Blueprint emphasizes that this trajectory is part of a comprehensive package of measures, focusing on costs:

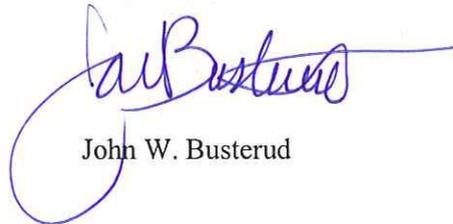
*[I]t is imperative that the costs of the program are manageable. The costs will depend significantly upon the combination of emission reduction targets and the level of offsets that are permitted . . . and the effectiveness of other cost-containment measures. USCAP believes the [emission] targets recommended above are achievable at manageable costs to the economy provided that the offsets and other cost-containment measures we recommend . . . are enacted . . .*

(USCAP Blueprint, p. 5, emphasis in original)

PG&E is concerned that “offsets and other cost-containment measures” in California’s cap-and-trade market may be insufficient, especially during the first compliance period. PG&E’s concerns include the restrictive limit on the use of offsets and the lack of an effective consumer-protection mechanism. In this regard, PG&E notes that several other parties raised similar concerns at the April 28<sup>th</sup> Workshop, and Staff agreed to consider holding a Workshop specifically on cost containment.

Thank you for the opportunity to submit these comments. We look forward to working constructively with ARB, other state agencies, concerned stakeholders, and members of the public to tackle the challenge of global climate change and to ensure the successful implementation of AB 32.

Very truly yours,



John W. Busterud

JWB:kp:bd

cc: Mr. Kevin Kennedy, Chief – Office of Climate Change  
Mr. Sam Wade, Air Pollution Engineer – Program Evaluation Branch, Office of Climate Change  
Mr. Steven Cliff, Manager – Program Development Section, Office of Climate Change  
Ms. Lucille Van Ommering, Manager – Program Evaluation Branch, Office of Climate Change